Chairman's Opening Statement

Fourth Quarter 2016 Quarterly Banking Profile

February 28, 2017

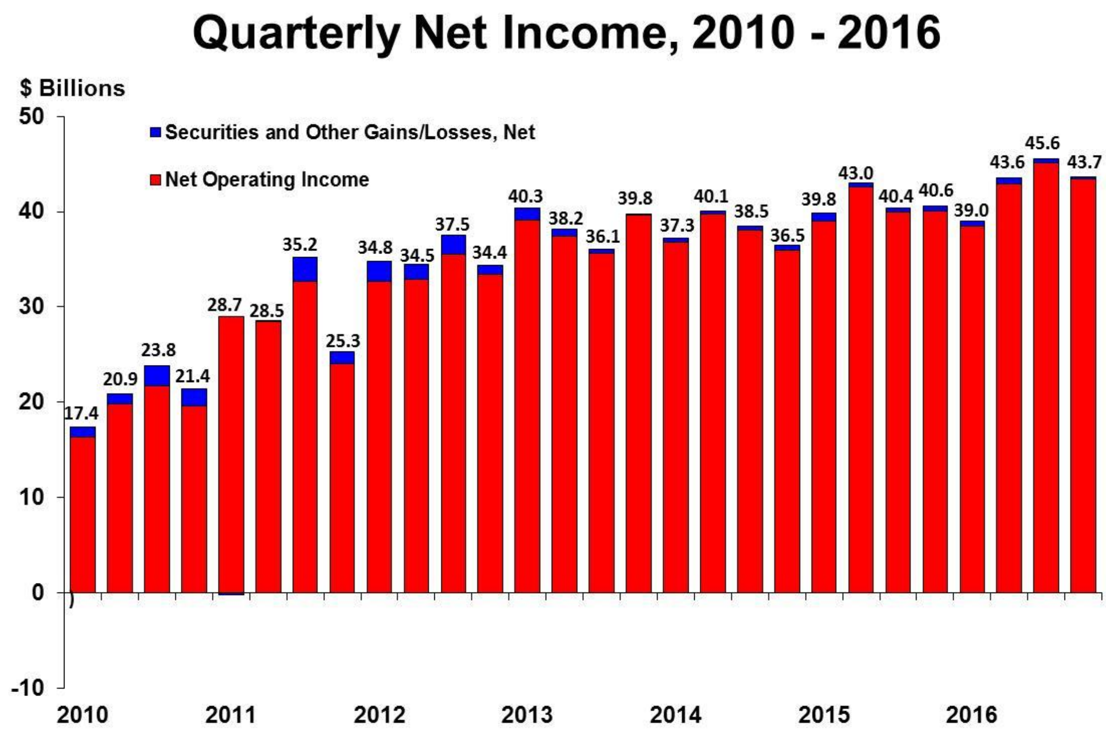
Good morning, and welcome to our release of fourth quarter 2016 results for FDIC-insured institutions.

The banking industry had another largely positive quarter. Both quarterly and full-year earnings were up from the prior year, loan balances increased, overall asset quality improved, and the number of unprofitable banks and "problem banks" continued to fall.

Community banks also reported another solid quarter. Their revenue, net income, and loan growth outpaced that of the overall industry.

Nevertheless, the industry continues to face challenges. Margin pressures have led some institutions to "reach for yield" through higher-risk assets and extended asset maturities. Banks must manage their interest-rate risk, liquidity risk, and credit risk carefully for industry growth to remain on a long-run, sustainable path. These challenges will continue to be a focus of supervisory attention.

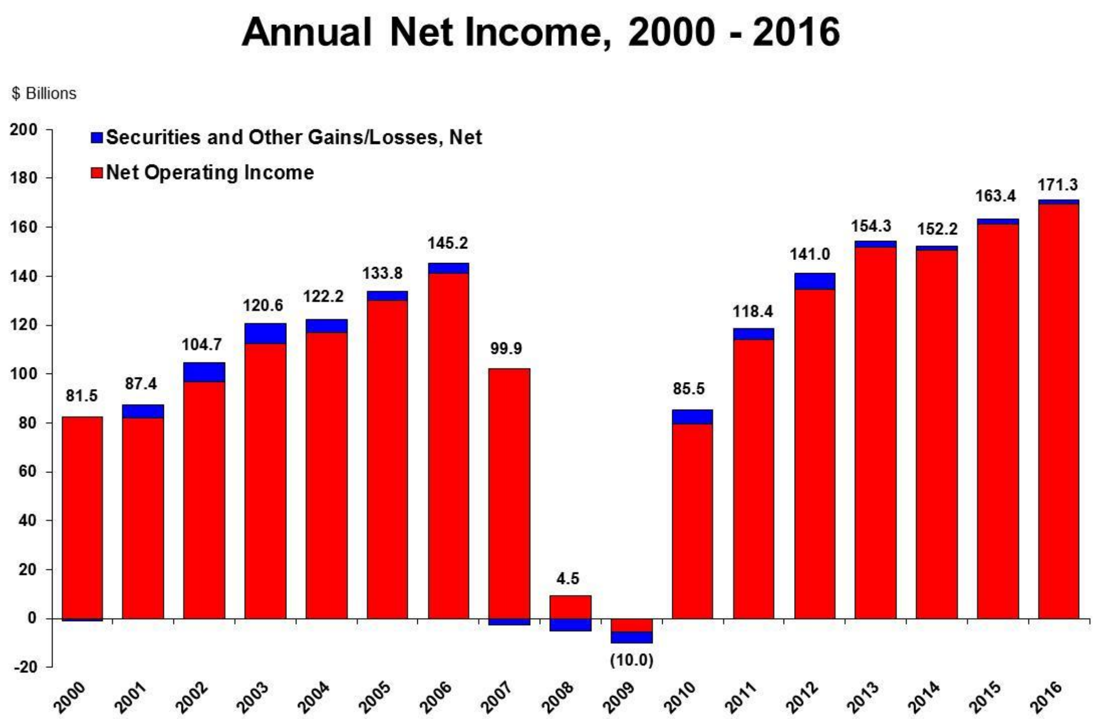
Chart 1:



Our first chart shows that net income for the industry was 43.7 billion dollars in the fourth quarter of 2016, up 3.1 billion dollars or 7.7 percent from the fourth quarter of 2015. Net income benefited from higher revenues and moderate expense growth.

Community banks reported net income of 5.3 billion dollars in the fourth quarter, up 508 million dollars or 10.5 percent from a year earlier.

Chart 2:



Our next chart shows that full-year 2016 net income was 171.3 billion dollars. The average return on assets remained unchanged in 2016 at 1.04 percent.

Chart 3:

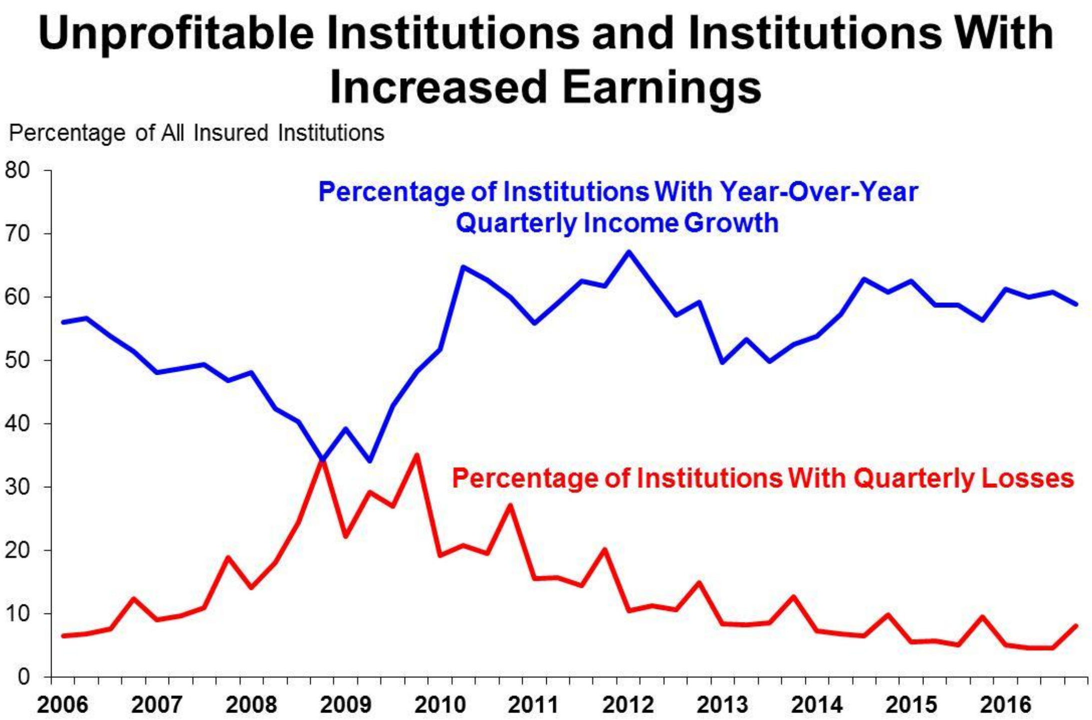


Chart 3 shows that the increase in quarterly earnings was broad-based. Almost 60 percent of all banks reported year-over-year growth in their quarterly net income. Only 8 percent of banks reported a net loss during the quarter, compared to almost 10 percent a year earlier.

Chart 4:

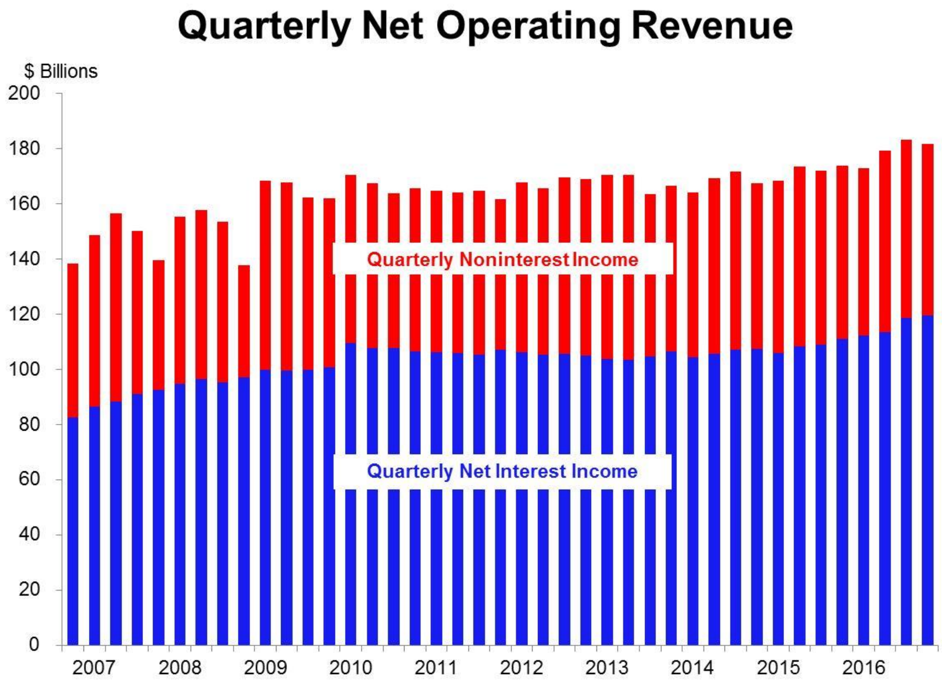
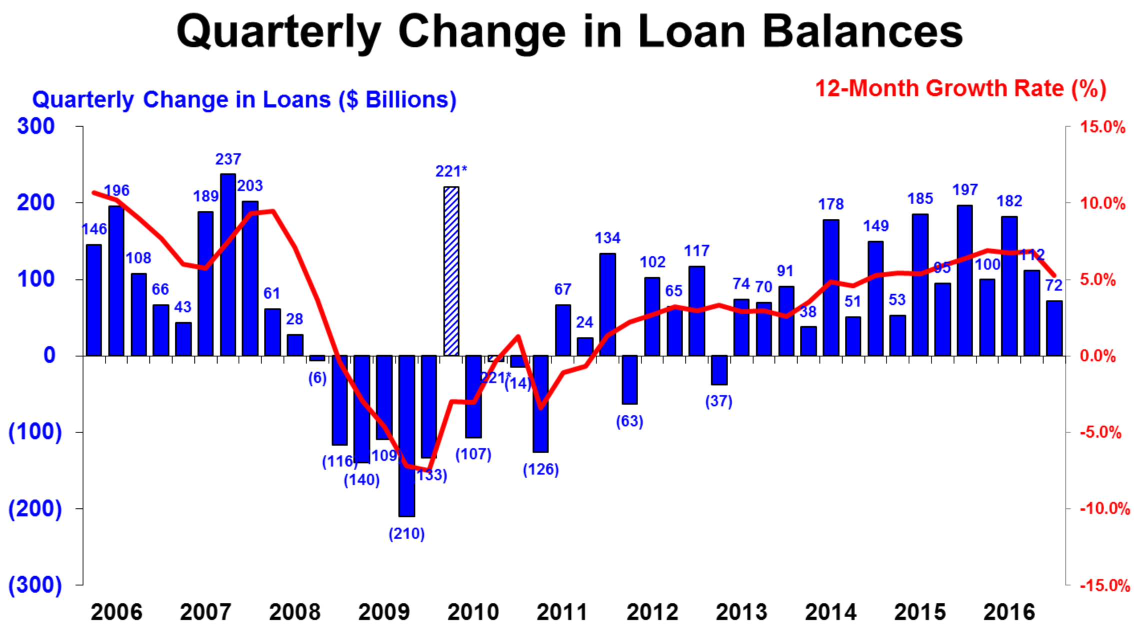


Chart 4 shows that net operating revenue was 182 billion dollars in the fourth quarter, up 4.6 percent from a year earlier. This increase also was broad-based, as two–thirds of all banks reported higher net operating revenue during the quarter.

The increase in revenue was due to higher net interest income, which was up 7.6 percent from a year ago. Noninterest income was down slightly from a year earlier.

Noninterest expenses increased modestly compared to the prior year, but the increase was more than offset by the increase in revenues.

Chart 5:



* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

Our next chart shows that loan balances rose 72 billion dollars during the fourth quarter from the third quarter. This was led by a 38 billion dollar increase in commercial real estate loans and a seasonal increase of 38 billion dollars in credit card balances.

The increase in loan balances slowed in the fourth quarter compared to prior quarters as commercial and industrial loans declined by 8 billion dollars and home equity loans declined by 10 billion dollars.

Chart 6:

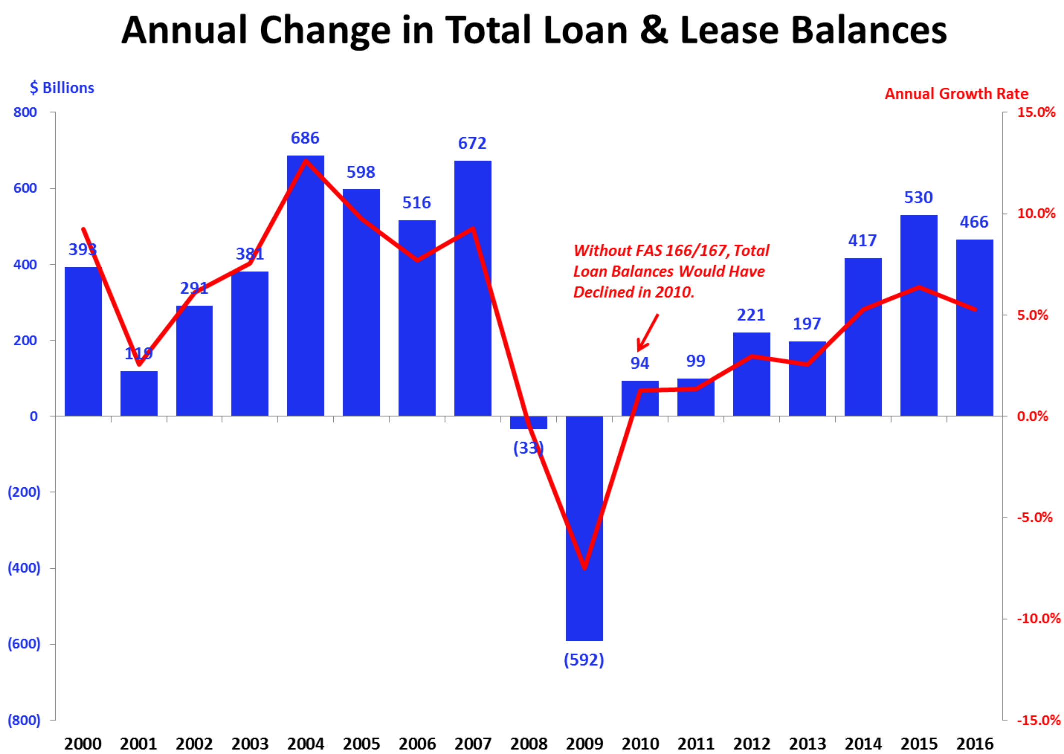
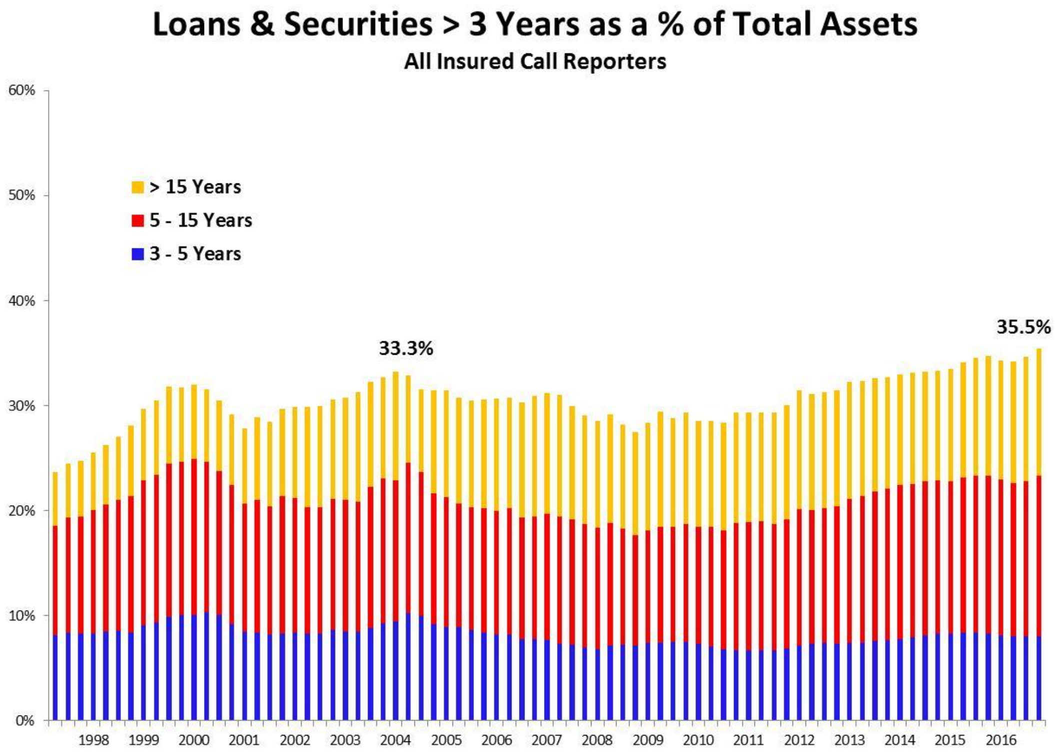


Chart 6 shows the annual change in total loan balances and the annual growth rate since 2000. In 2016, loan balances grew 466 billion dollars, or 5.3 percent, with all major loan categories reporting positive growth during the year. Loan balances grew 6.8 percent in 2015 and 5.3 percent in 2014.

Loan growth at community banks was stronger than the overall industry. Loan balances at community banks grew 8.3 percent in 2016, led by growth in commercial real estate loans, commercial and industrial loans, and residential mortgages.

Community banks, which account for 43 percent of the industry's small loans to businesses, continued to grow their small business loans at a faster pace than the rest of the industry.

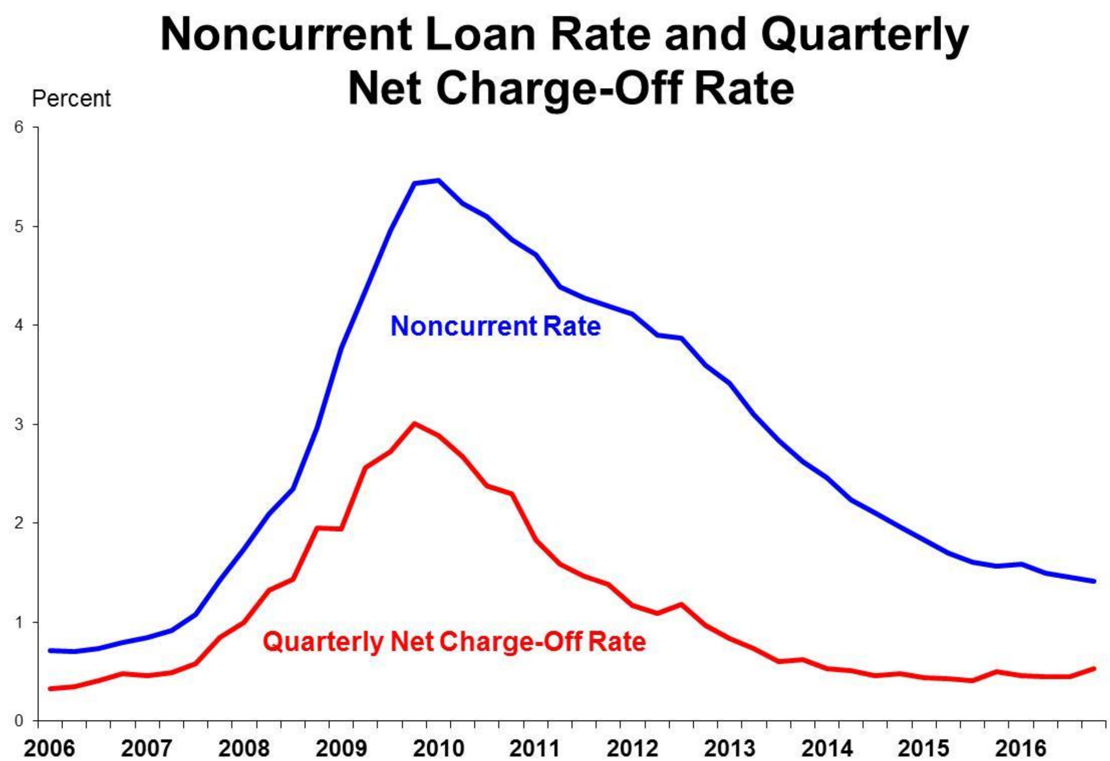
Chart 7:



The average net interest margin for the industry was 3.16 percent in the fourth quarter of 2016, up from 3.12 percent in the fourth quarter of 2015.

Chart 7 shows that banks generally have been extending asset maturities since 2009 to mitigate the downward pressure on margins from the low interest rate environment. At community banks, the share of longer-term assets has been higher than the rest of the industry. This has left banks vulnerable to interest-rate risk, and is a matter of ongoing supervisory attention.

Chart 8:



Our next chart shows that overall asset quality in the banking industry remains strong. Both the noncurrent rate and the net charge-off rate are near cyclical lows. While asset quality continued to improve in most loan portfolios during the quarter, noncurrent loan balances and net charge-offs increased for credit cards and auto loans.

Chart 9:

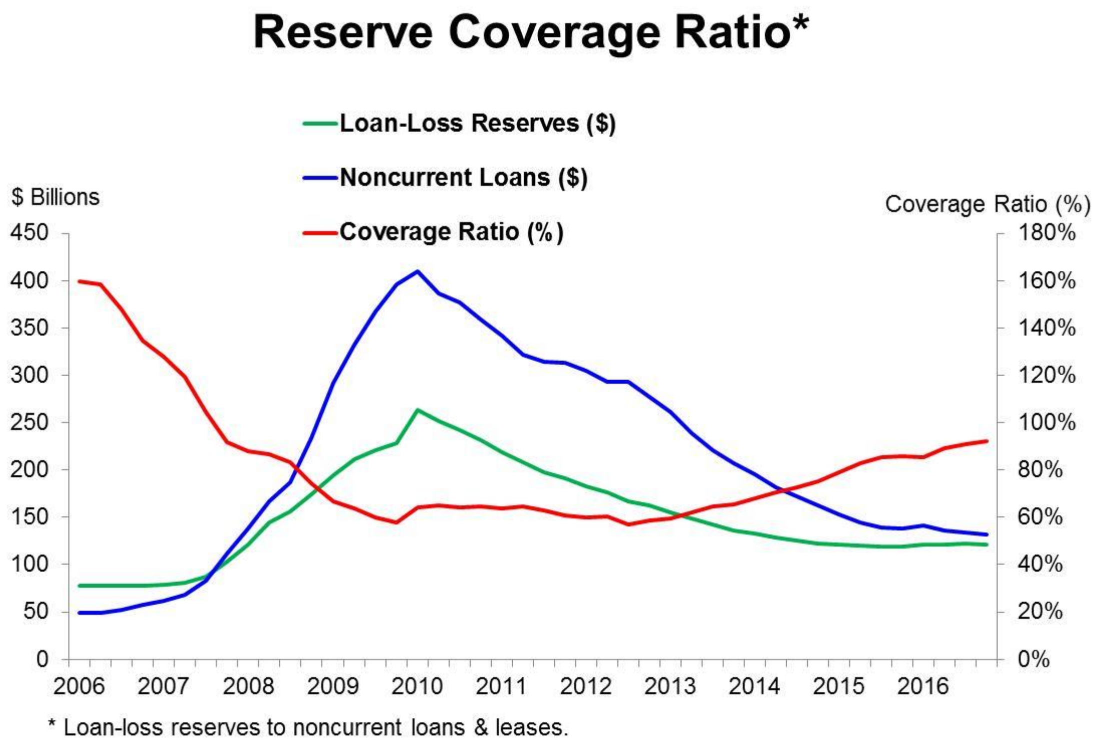
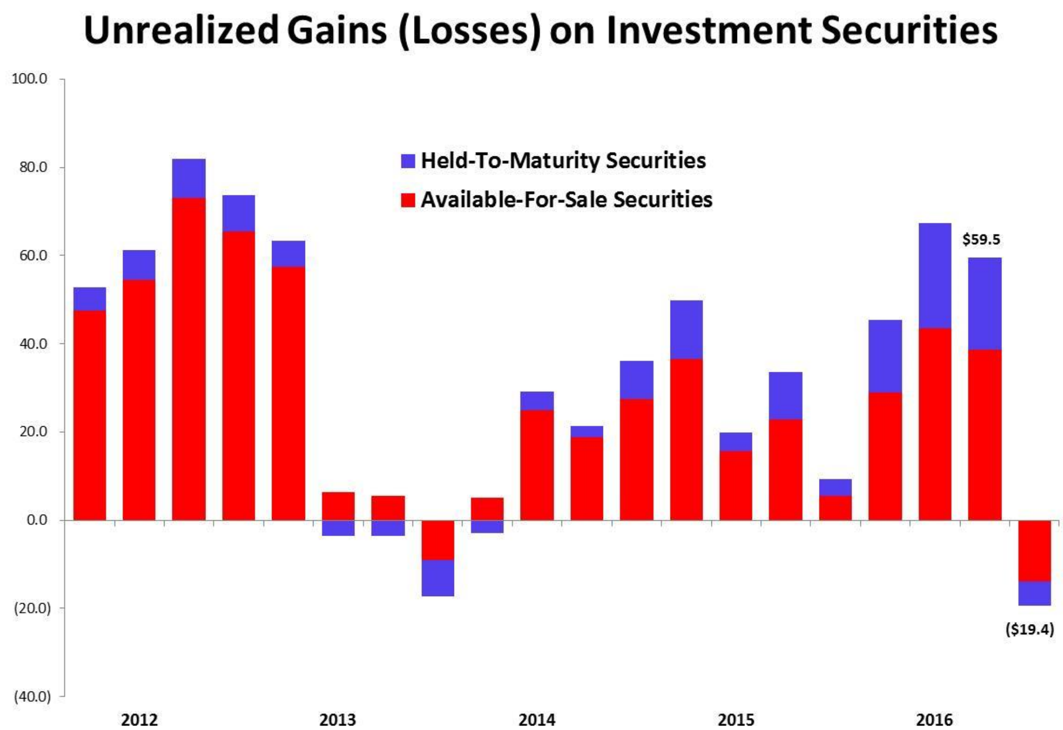


Chart 9 shows that the industry's reserve coverage ratio, which measures loan-loss reserves relative to total noncurrent loan balances, continued to improve during the quarter. The reserve coverage ratio was 92 percent at the end of the year, the highest level since third quarter 2007.

The ongoing decline in noncurrent loans, combined with a relatively stable level of loan-loss reserves, has led to an improvement in the industry's ability to absorb credit losses.

Chart 10:



The increase in longer-term interest rates during the fourth quarter led to a decline in market values of securities portfolios. Our next chart shows that the market value of investment securities held by banks exceeded the book value by almost 60 billion dollars at the end of the third quarter. By the end of the fourth quarter, these unrealized gains had reversed to nearly 20 billion dollars in unrealized losses.

Chart 11:

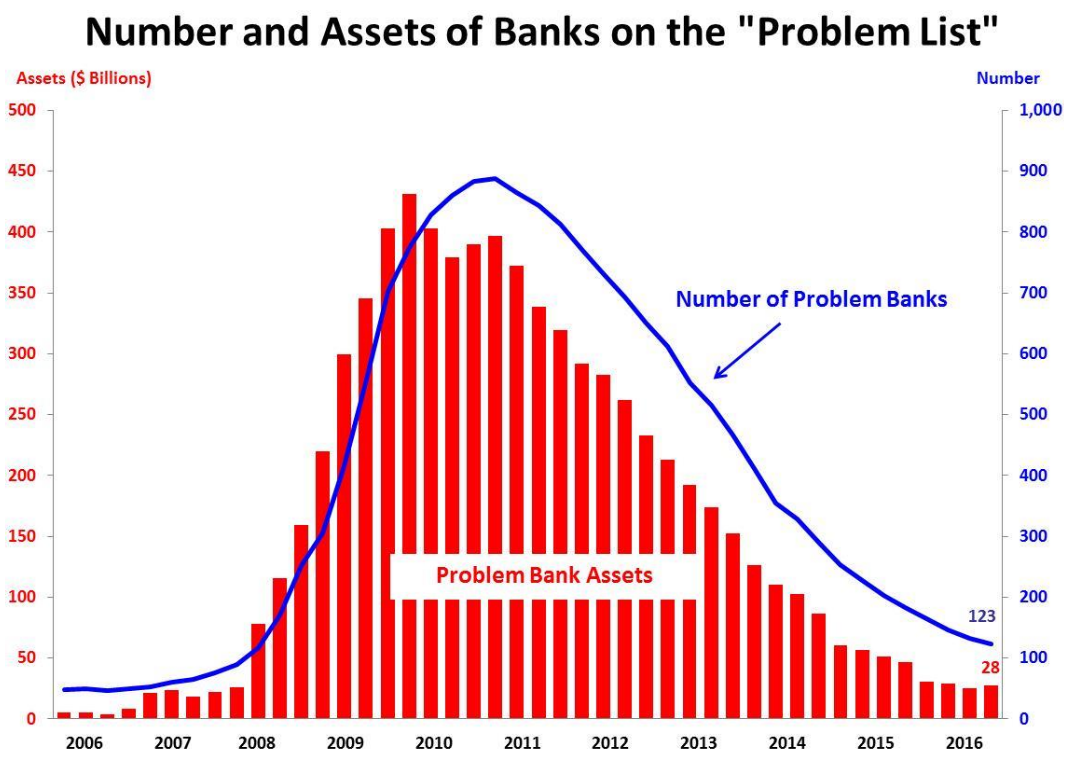
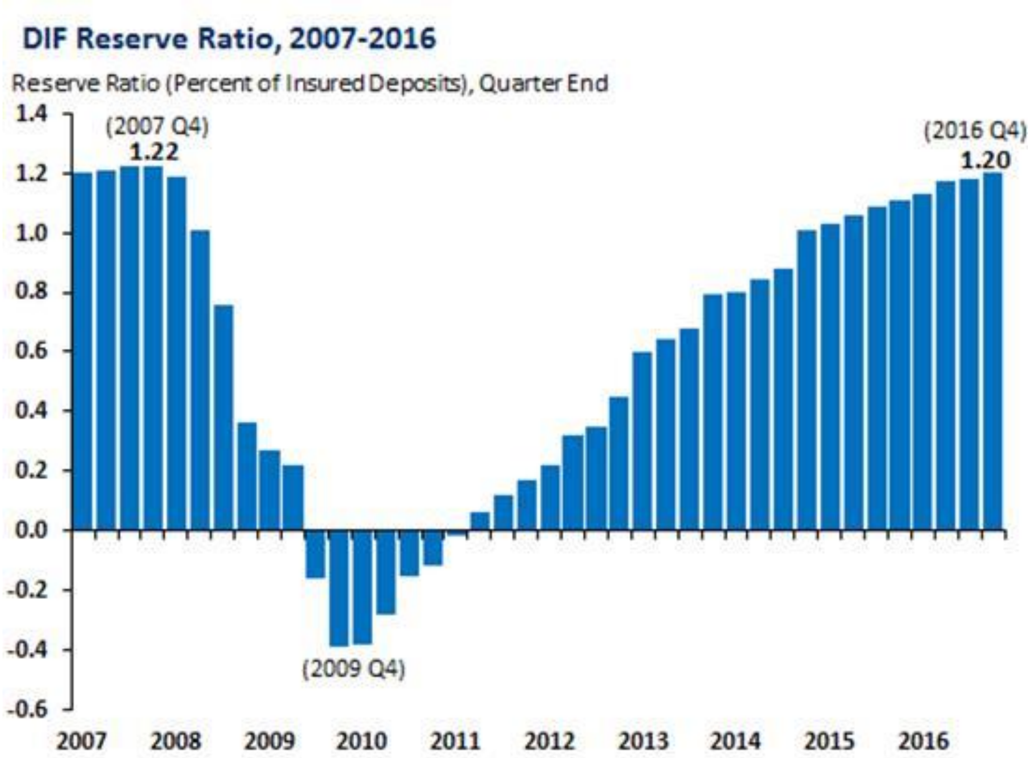


Chart 11 shows that the number of institutions on the FDIC's "Problem Bank List" fell from 132 to 123 over the quarter. This is the smallest number of problem banks since mid-2008.

Five banks failed in all of 2016, down from eight failures in 2015. This is the smallest number of failures in a year since 2007.

Chart 12:



The Deposit Insurance Fund balance was 83.2 billion dollars on December 31, up 2.5 billion dollars from the end of September. Assessment revenue, including surcharges on large banks, was primarily responsible for the increase.

Estimated insured deposits rose to 6.9 trillion dollars at the end of December, an increase of 1.4 percent during the quarter and a 6.0 percent gain for the year.

Chart 12 shows that the reserve ratio increased to 1.20 percent on December 31 from 1.18 percent at the end of September.

As required by law, the Deposit Insurance Fund must achieve a minimum reserve ratio of 1.35 percent by September 30, 2020.

We remain on track to meet this mandate.

In summary, fourth quarter and full-year 2016 results were largely positive for the banking industry. Revenue and net income were higher, loan balances grew, asset quality improved, and the number of unprofitable banks and “problem banks” continued to fall.

Community banks also reported solid results for the quarter and year with strong net income, revenue, and loan growth.

Nevertheless, the operating environment for banks remains challenging. Low interest rates for an extended period have led some institutions to reach for yield. This has increased their exposure to interest-rate risk, liquidity risk, and credit risk. The decline in securities values in the fourth quarter demonstrates one way that higher interest rates can adversely affect banks’ balance sheets.

Banks must manage risks prudently to ensure that industry growth is on a long-run, sustainable path. We will continue to monitor closely the environment in which banks operate, and we will remain vigilant as we conduct our supervision of the industry.

Thank you.

I am happy to take your questions.